INDUSTRY UPDATE

Ernst donates to shelter

SEATTLE — Ernst Home & Nursery was slated to hold a grand opening on Thanksgiving Eve, Nov. 25—not for a new store, but for an emergency homeless shelter. Ernst donated more than $25,000 in materials for the remodeling of Washington state's largest emergency shelter, located in downtown Seattle.

Members of the Mr. Build franchise program donated repair services for the shelter project. Mr. Build is used exclusively by Ernst in its installed services departments. Gordon Erickson, director of home installed sales for Ernst, said the shelter occupies 1,000 square feet of an older hotel in Seattle's historic Pioneer Square district.

The project included making shelter improvements such as the addition of a food preparation room and laundry/personal care area. At the ribbon-cutting ceremony, attended by Seattle Mayor Charles Royer and other civic leaders, Ernst planned to distribute 300 box lunches to the shelter's clients.

Nortek bids again for Kincaid

PROVIDENCE, R.I. — Once again, Nortek has turned a hungry eye toward Kincaid Furniture of Raleigh, N.C. In late November, Nortek sent a letter to the furniture company offering to reopen negotiations at $14 per share, or a total of $47 million.

This time around, though, the parent of Dixieline Lumber is making its bid a friendly one, with the idea of avoiding the negative reaction its original hostile tender offer had in the Kincaid boardroom (*NHCN*, Nov. 16).

"We are as interested now as we were then, and we feel the acquisition would still be advantageous," said Kenneth L. Donoghue, spokesman for Nortek. Donoghue added that Kincaid's stock price had dropped following the crash of October. Earlier this month, Kincaid stock was trading at $12, down from its $18.25 year high. Nortek said it had not yet received a response from Kincaid.

Monarch buys BWB Glass Co.

KAHULUI, Hawaii — Monarch Building Supply, one of this state's largest lumber and building materials retailers, recently acquired BWB Glass Co. The purchase of this wholesale and retail distributor of glass and glazing products will complement the company's existing building materials mix, according to Jim Rodden, president.

The addition will increase Monarch's dominance on the neighbor islands of Maui and Hawaii. It already operates a 9-acre yard with a truss plant, prehung door plant, planing mill and a home planning division on Maui. In addition, it has five other stores, including one unit in Honolulu.

The glass company will continue to operate under the BWB Glass name and retain its personnel. Its former president, Buck Worthen, will stay on as a consultant; Eloise Bal will remain as general manager; and Donald Nakagawa as shop foreman.

Home Lumber closes down

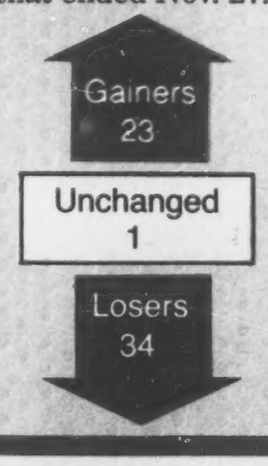
ALAMOSA, Colo. — The Home Lumber Co., a three-yard traditional lumber and building materials retailer, shut down its operations here as a result of the region's chronic economic woes.

The company was formed in 1983 when three partners formed the capital to buy a string of old lumberyards, some of which were 50 years old, according to *Lumberline*, the newsletter of the Mountain States Lumber and Building Material Dealers Association. The principals of the defunct company could not be reached for comment.

Majority of stocks decline

NEW YORK — Home center stocks turned in a mixed performance for the two-week period that ended Nov. 27. Of the 58 stocks tracked for *NHCN* by Media General, 23 increased in price, one remained unchanged and 34 dropped in value.

Among retailers, Pay 'N Pak increased by 6 percent to $15.38. National Lumber went up 3.2 percent to $4.00. The greatest loser for the period was Payless Cashways, which dropped by 17.9 percent to $11.50. Grossman's dropped 8.9 percent to $5.13.



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Handy Andy acquires properties for expansion into Toledo market

By Gary S. Ruderman
NHCN staff editor

TOLEDO, Ohio — Handy Andy Home Improvement Centers will open three units in Toledo, Ohio, next year, *NHCN* has learned.

On Nov. 20, Handy Andy closed on the purchase of two properties and signed a 25-year lease on a third, all former Cook's United stores, according to Mark Zyndorf, president of Zyndorf/Serchuk Inc., a Toledo commercial real estate broker.

Steve Kadish, Handy Andy's senior vp, confirmed the purchase of the three sites. He noted that they were scheduled to be reopened in September 1988 after being refurbished "to offer the public our 25,000 products in an enjoyable and exciting shopping environment."

Kadish added that the chain will open two other units in 1988, although he declined to specify their locations. He could not comment on what names the stores will use.

Steve Kadish
senior vp, Handy Andy

The Toledo operations would be a natural "bridge" between Handy Andy's Forest City units in Detroit and Cleveland. The chain, based in Schaumburg, Ill., also has units in Akron, Ohio. Zyndorf said construction should get underway March 1, 1988, with possible unit openings in late summer or early fall.

Zyndorf confirmed Handy Andy paid $1.2 million for a 90,000-square-foot store in south Toledo, $1.125 million for a 100,000-square-foot building in east Toledo and signed the long lease for a 100,000-square-foot building in north Toledo.

"It's a real plus for the community," said Zyndorf. He said the home improvement retailer anticipates 300 new retail jobs will be created when the units open.

It was unknown whether the units will be called Handy Andy or be more closely identified with the 18-unit Forest City, acquired by Handy Andy earlier this year.

The proposed south Toledo unit would compete with a newly opened Builders Square and the north unit is five miles away from an Andersons General Store, a 235,000-square-foot specialty food and home center hypermarket.

Handy Andy operates a total of 44 units in Illinois, Wisconsin, Indiana, Michigan and Ohio. *NHCN* estimates 1987 sales at more than $400 million.

Lowe's trying out warehouse racking to promote self-service

By Suzanne Floyd
NHCN staff editor

NORTH WILKESBORO, N.C.— Lowe's is experimenting with 8-foot warehouse racking throughout most of its existing Morganton, N.C., store. And, where appropriate, gondolas are also 8 feet high.

The success or failure of this one-store experiment will determine if the high-rack concept will be rolled out chain-wide, said Cliff Oxford, Lowe's vp-corporate relations.

The motivation behind the change was described as customer-driven. James Lyall, vp-design services, added that it was part of Lowe's shift toward self-service. "The idea is to have more 'take-with' merchandise on the floor," he said.

Although there will be an increase in merchandise on the retail floor, Oxford said that Lowe's will not be adding items to the product mix.

Lyall explained that the additional merchandise creates an impressive effect for the consumer. "It makes us look like we're really in the business.

"We wanted to create a tight store effect, not a crowded effect," said Oxford.

While much of the racking is described by Oxford as warehouse racking, he stressed that Lowe's did not intend to present a warehouse look to the store. Lowe's units generally have 8-foot-high gondola racking only around their interior perimeters, with rack heights getting smaller towards the middle of the floor in order to create a stadium-type effect.

As the unit was about to reopen in early December, a number of factors were still to be determined, including the amount of merchandise that will be added to the showroom and the cost difference between an existing store format and the high rack prototype.

O'Malley's replaces gm, closes 3 units

By Brad Altman
NHCN staff editor

PHOENIX — O'Malley Lumber Cos.' credit manager James F. Sullivan Jr. has been named to replace Michael O'Malley as general manager. And, in a separate development, the chain's retail division has closed its three building materials centers in Tucson, Ariz.

Michael O'Malley "left the company" Nov. 2 after only 11 months in that job, said O'Malley Lumber Cos.' chairman Thomas E. O'Malley, who declined additional comment. Thomas is a second cousin of Michael O'Malley, a fourth-generation descendent of the founder of the 79-year-old company. Michael could not be reached for comment.

In recent months, O'Malley's retail division has been shifting away from the consumer to the contractor side of the business to bolster profits and market share. Sullivan, a 20-year company veteran, becomes the fifth general manager of the retail division since 1985. He declined comment on his appointment.

The shuttering of the three Tucson building material centers lowers O'Malley's units to 13 consumer-oriented outlets and two contractor yards.

The original expansion into Tucson was made after the O'Malley company bought four Handy Andy stores in 1983. One was closed in 1984 and the remaining three were changed to the O'Malley name and format in early 1985. These units were not part of the Handy Andy chain based in Schaumburg, Ill.

Michael O'Malley moved from the Mallco wholesale building materials subsidiary in December 1986 to replace then-general manager Richard Passaglia. Industry veteran Passaglia had joined O'Malley in January 1986 and was dismissed along with nine other company headquarters employees late that year (*NHCN*, Jan. 12).

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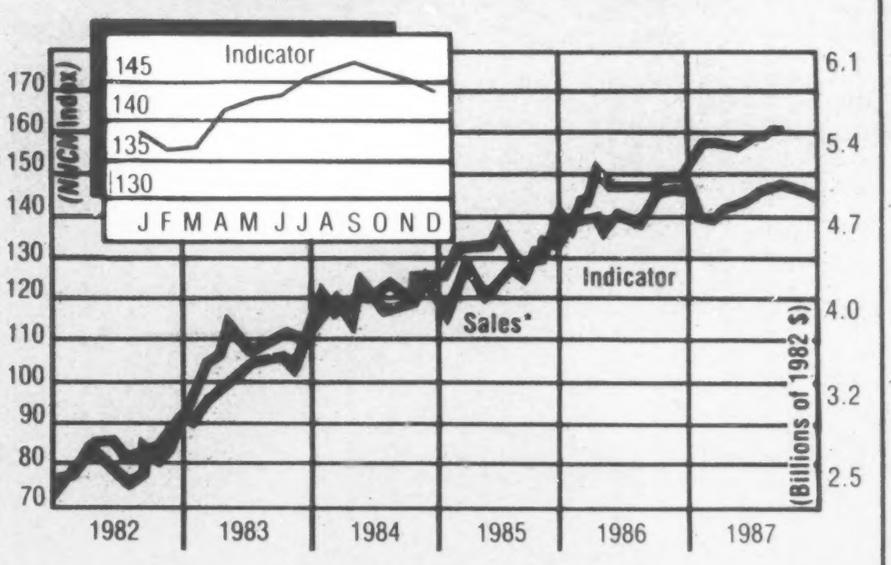


*—Monthly retail trade building materials, hardware and supplies in (1982 $).
Indicator—represents an estimate of future building material retail sales (adjusted for inflation) relative to Jan. 1980, based on current levels of housing starts and resales, personal income, interest rates and related data.

The NHCN Leading Indicator is projecting a softening in building material sales during the fourth quarter of 1987. Housing starts are declining, pointing to a slowdown in sales in the months ahead.

Maintenance spending will show growth in coming year

By Richard E. Mount
Special to NHCN

Building material sales will increase 4 percent in 1988, unchanged in unit volume, while housing starts will decline 12 percent and resales 5 percent. Consumer spending on maintenance and repair work will be one of the rising markets for sales in 1988 when builder demand turns lower.

Maintenance and repair spending, in unit volume, declined 1 percent in 1986 and appears to be headed for a 3 percent fall in 1987 after its weak second-quarter performance. The declines of the past two years come after jumping 51 percent in 1984 and 22 percent in 1985.

Maintenance and repair covers minor work—such as repainting a room, replacing carpeting, or small electrical repairs—to existing structures. It does not include reroofing, replacing heating systems, or repaving driveways.

Richard E. Mount

Yet, in the $92 billion market for residential alterations and repair, maintenance and repair amounts to $36 billion.

Maintenance and repair spending tends to lag behind the housing cycle. Three to four years after moving into a new home, minor changes are made.

Economics also play a part—rising unemployment postpones many of the larger do-it-yourself projects, especially when accompanied by

(Continued on page 15)

Richard E. Mount is senior economist and manager of housing and construction material research for Merrill Lynch Economics.

General Business Conditions

		1986		1987				1988				
		QIII	QIV	QI	QII	QIII	QIV	QI	QII	1986	1987	1988
***NHCN* Leading Sales Indicator** (January 1980 = 100)		132.1	137.1	141.1	143.8	146.4	143.7	142.7	142.3	130.4	143.8	143.3
General Economic Outlook												
	GNP $1982 Billion	3,718.0	3,731.5	3,772.2	3,795.3	3,831.2	3,861.3	3,847.2	3,860.0	3,713.3	3,815.0	3,869.5
	Real Disposable Income $1982 Bil.	2,653.2	2,656.7	2,674.6	2,645.5	2,676.1	2,685.6	2,692.0	2,704.4	2,645.2	2,670.5	2,712.2
	Housing Permits (000 SAAR)	1,678	1,696	1,682	1,536	1,497	1,475	1,350	1,360	1,762	1,548	1,369
	Housing Starts (000 SAAR)	1,758	1,702	1,795	1,612	1,613	1,550	1,430	1,430	1,806	1,643	1,438
	New Home Sales (000 SAAR)	685	712	724	674	674	650	600	610	749	681	610
	Resales (000 SAAR)	3,615	3,927	3,617	3,610	3,430	3,425	3,325	3,325	3,565	3,521	3,338
	Prime Rate %	7.9	7.5	7.5	8.1	8.4	8.6	8.1	8.0	8.4	8.2	8.3
	Mortgage Rate % (HUD)	10.2	9.7	9.1	10.3	10.5	10.8	10.3	10.2	10.2	10.2	10.7
	Consumer Price Index (1967 = 100)	328.4	330.7	335.0	339.0	342.3	345.8	349.8	353.9	328.3	340.5	356.3
	Producer Price Index (1967 = 100)	288.2	290.2	292.4	295.9	297.7	301.4	305.4	309.5	289.8	296.9	311.5
	New Housing Affordability 1980-100)	126.1	128.9	129.2	123.4	117.4	114.2	117.2	119.2	128.3	121.1	116.8
Residential Alterations and Repairs												
Current	**Total $ millions SAAR**	100,300	88,900	91,500	88,900	93,649	95,645	96,543	98,459	91,150	92,424	99,506
	Maintenance and Repair	39,500	37,700	37,500	32,400	36,989	37,487	37,979	38,597	36,075	36,094	38,929
	Additions and Alterations	42,400	36,100	36,300	42,100	39,719	40,757	41,400	42,289	38,225	39,719	42,823
	Major Replacements	18,400	15,100	17,700	14,400	16,941	17,402	17,164	17,573	16,850	16,611	17,754
Constant	**Total Millions $1982 SAAR**	89,910	81,090	81,500	77,890	81,240	82,150	82,100	82,900	82,165	80,695	83,350
	Maintenance and Repair	35,410	34,390	33,400	28,390	32,090	32,200	32,300	32,500	32,540	31,520	32,613
	Additions and Alterations	38,010	32,930	32,330	36,880	34,450	35,000	35,200	35,600	34,435	34,665	35,863
	Major Replacements	16,490	13,770	15,770	12,620	14,700	14,950	14,600	14,800	15,190	14,510	14,875
Retail Trade Activity												
Current	**Total $ millions SAAR**	1,486,596	1,485,648	1,469,808	1,503,848	1,534,188	1,524,062	1,528,882	1,545,533	1,445,875	1,507,977	1,555,676
	Total Minus Automobile	1,122,908	1,133,900	1,155,900	1,164,940	1,173,800	1,180,916	1,187,705	1,198,150	1,117,943	1,168,889	1,206,403
	Building Material, Hardware, Garden Supply, Mobile Home	88,884	89,488	91,132	89,596	90,116	90,166	90,646	91,461	88,009	90,252	92,216
	Building Material and Supply	62,956	64,584	69,660	68,976	71,616	71,666	72,048	72,800	65,529	70,480	73,648
	Hardware	11,832	11,748	12,092	12,108	11,820	11,816	11,878	12,049	10,700	11,959	12,161
Constant	**Total Millions $1982 SAAR**	1,389,643	1,381,478	1,346,715	1,359,304	1,375,541	1,352,933	1,343,774	1,344,959	1,359,694	1,358,623	1,346,953
	Total Minus Automobile	1,064,708	1,069,709	1,069,597	1,063,876	1,065,477	1,061,323	1,056,856	1,055,594	1,057,464	1,065,068	1,057,512
	Building Material, Hardware, Garden Supply, Mobile Home	84,518	83,480	84,277	82,553	82,423	81,652	81,274	81,193	83,303	82,726	81,449
	Building Material and Supply	59,866	60,242	64,420	63,551	65,503	64,900	64,600	64,500	60,490	64,594	64,725
	Hardware	11,251	10,960	11,182	11,157	10,811	10,700	10,650	10,675	10,640	10,963	10,688
	Building Materials % of Total Less Automobile ($Current)	5.61	5.70	6.03	5.92	6.10	6.07	6.07	6.08	5.86	6.03	6.10

Data: Department of Commerce
Bureau of Labor Statistics
National Association of Realtors
Department of Housing and Urban Development
November 16, 1987

The Home Center Industry Outlook runs in two parts, in alternate issues. The first part includes latest data on the General Economic Outlook; Residential Alterations & Repairs; and Retail Trade Activity. The second part includes latest data on regional building material & supply store sales; and industrial production. The *NHCN* Leading Indicator runs every issue.

SAAR—Seasonally Adjusted Annual Rate
p—projection
NHCN chart
Source: Merrill Lynch Economics for *NHCN*

BUSINESS WATCH

Repair spending will show growth in 1988

(Continued from page 14)
rising interest rates. A soft economy often increases repainting by the homeowner rather than by a contractor. The attitude of "fix-up" replaces that of major home improvement.

1988 turns the corner

After declining in real volume during 1986 and 1987, maintenance and repairs should turn upward in 1988. Over the past two years it was the weakest of the three categories of alterations and repairs. In 1988, it is likely to be the strongest by a small margin.

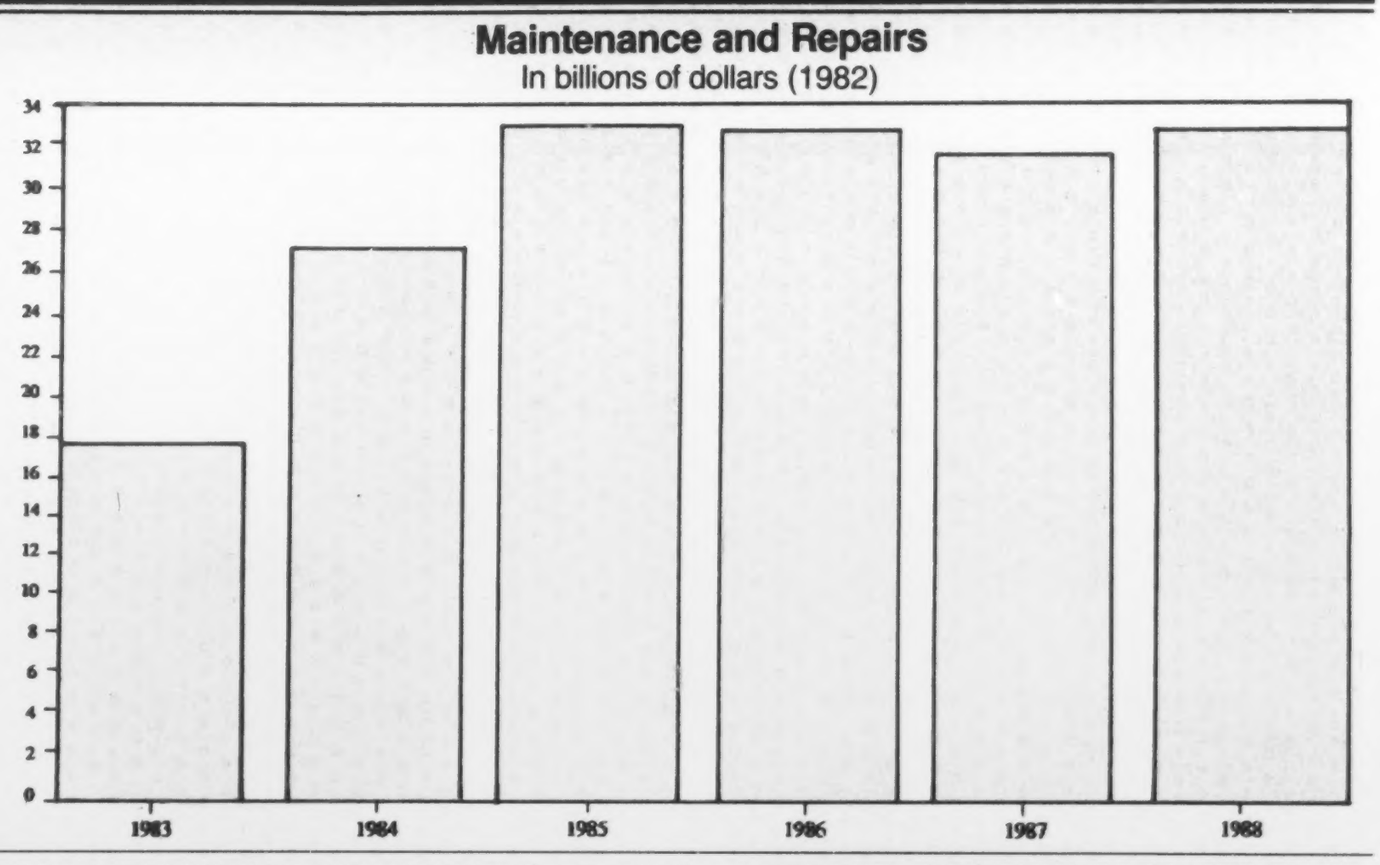
Strength in new housing starts from 1983 to 1985 will increase the demand for the maintenance and repair of these units. While building material suppliers to builders are concerned if 1988 housing starts will be 1.5 or 1.4 million units, the market for maintenance and repair is in the 101.5 million homes already built.

The economy will not be growing as rapidly in 1988 as in 1987—real GNP will be up only 1.4 percent versus 2.7 percent in 1987. The consumer is expected to be in a consolidating phase—cutting spending, reducing debt, increasing savings.

Consumers will be looking to cut costs, and maintenance and repair should benefit while major replacements or alterations should not be quite as strong. The major areas for consumer retrenchment will be in big-ticket items—autos and new homes.

While building material sales are expected to be up only 4 percent in 1988, specific markets will be undergoing larger shifts.

New home demand will be down, with multi-unit demand off more than single. Alteration and repair work will be up, however, spurred by a recovery in maintenance and repair after a two-year correction. Within the maintenance and repair market, sales should increase slightly stronger to the homeowner than the contractor.



Liberty signs on commodity vendors for dist. program

By an NHCN staff editor

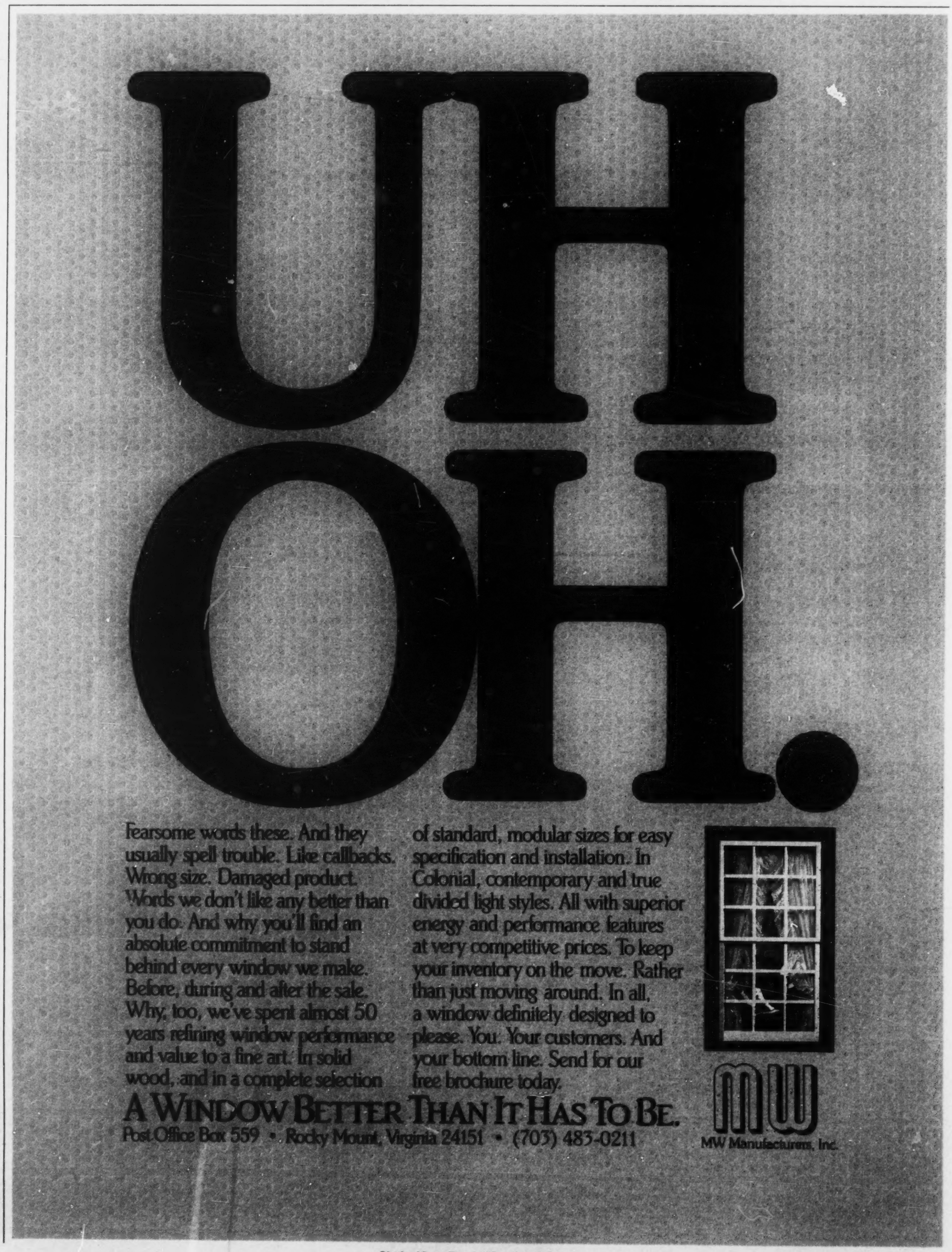
DES PLAINES, Ill. — Liberty Distributors' new lumber and building materials program recently signed on its first commodity vendors.

Liberty, a wholesaler buying group, last month signed up Manville Fiberglass Insulation, Celotex roofing and wallboard, IKO roofing and U.S. Gypsum sheet rock and accessories as commodity suppliers. Ted Geocaris, Liberty's director of building materials distribution, said first orders for wallboard, roofing and insulation came in Oct. 1.

The commodities join fiberglass panels, DIY range hoods, bath vents and lattice panels as a part of Liberty's offering. Roof coatings and tub and shower enclosures are also part of Liberty's commodities distribution program.

Geocaris said the buying group will talk with 25 other vendors over the next year to flush out the new program.

A direct mail tab is in production—the first in the group's 53 year history. Geocaris said 11 of 26 participating Liberty wholesalers should receive it in January, and will offer the direct mail piece to the 700 Trustworthy dealers for a summer mailing.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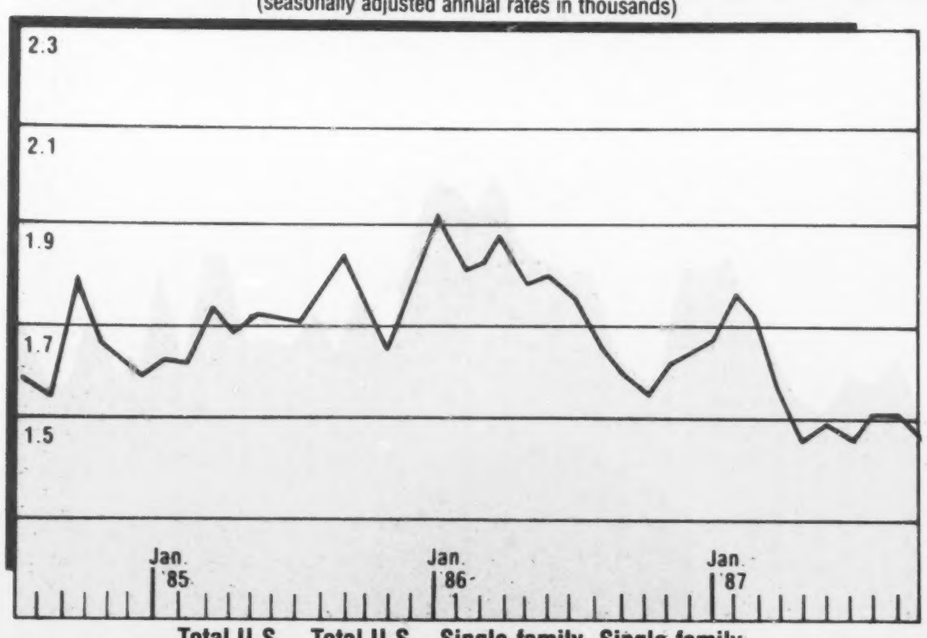
HOUSING WATCH

National housing starts and permits
(seasonally adjusted annual rates in thousands)



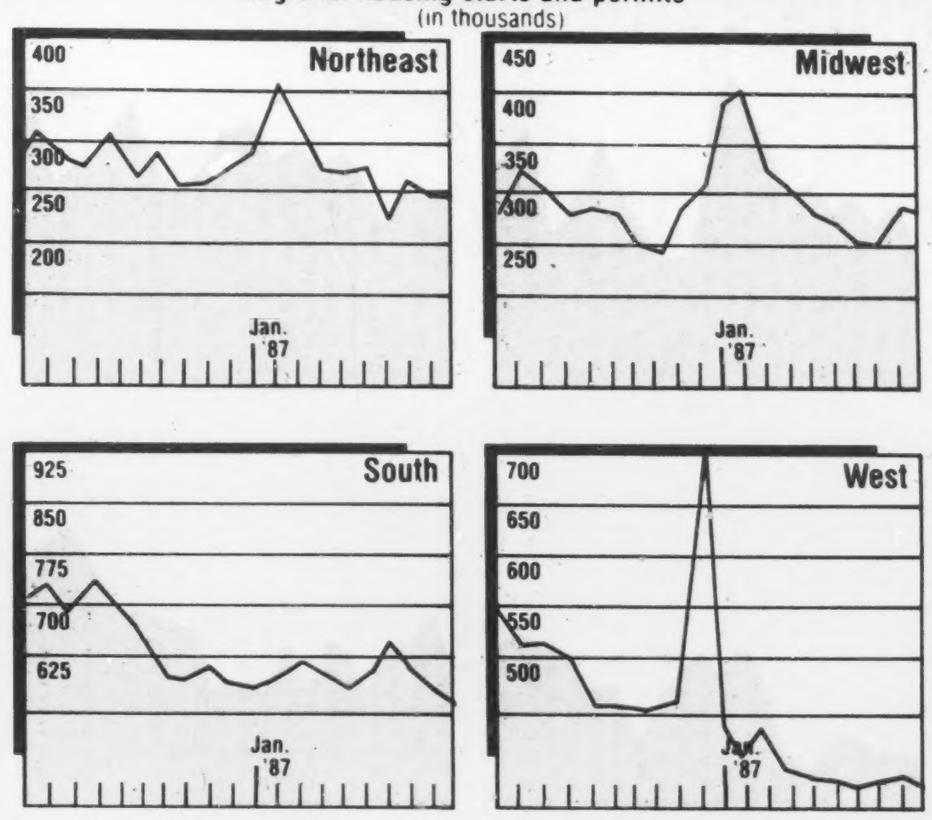
	Total U.S. starts	Total U.S. permits	Single-family starts	Single-family permits
October '87[p]	1,513	1,451	1,111	977
September'87[r]	1,648	1,487	1,103	992
October '86	1,522	1,604	1,506	1,438

[p]preliminary [r]revised

Source: U.S. Commerce Department

Key: permits, starts

Regional housing starts and permits
(in thousands)



Oct. housing starts plummet

By Ariane Sains
NHCN staff editor

NATIONAL REPORT — If Oct. 19 was Misery Monday for the stock market, Nov. 18 was Worrisome Wednesday for the housing industry.

The government reported that housing starts dropped a whopping 8.2 percent between September and October, reaching their lowest level in more than four years.

Construction and real estate industry watchers weren't panicking, but they were clearly concerned in the days following the announcement.

Economists blamed the construction decline on interest rates that had risen sharply in September.

October's 1.51 million-unit annual rate was "within the range we were expecting, but it was low," conceded Bob Villanueva, a vice president for forecasting at the National Association of Home Builders in Washington.

"Although this was in the realm of possibility it was something we didn't expect to see until December."

Regional Housing
July '87 (in thousands)

	starts	% chg.	permits	% chg.
Northeast	246	– 1.0	246	–4.0
West	414	– 1.2	367	–7.6
South	615	–10.9	557	–3.3
Midwest	238	–19.3	281	–1.0

n.c. = no change
Source: U.S. Commerce Department

Rates, which hovered at 12 percent just before the stock market crash, dropped afterward to around 10 percent. They are now almost 11 percent.

While the market crash may have done other economic damage, economists say the market may have done the housing industry a favor by bringing interest rates down.

"We've never seen interest rates come down as sharply as they did after the stock market crash," said Walter Molony, a spokesman for the National Association of Realtors.

But he warned:"We expect them to go up again after the first of the year."

Villanueva concurred.

"What you may be facing here is a situation where we have a more cheerful outlook than we expected for the next six months," he said. "But that's only for the next six months."

Because the median price is more for a new home than a resale, new construction is more likely to be hit if rates shoot up again.

The median price for existing homes is $84,900. The median price for a new home is $105,400 and rising. Some 75 to 80 percent of all home sales are resales, said Molony, and that number is also rising.

"We do have a growing affordability problem with new homes," Molony said.

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Merchandising

Vendors see chain on the threshold of market maturity

By John Caulfield
NHCN staff editor

NATIONAL REPORT — The Builders Square that commodities and hardlines suppliers see is a chain run by highly professional, flexible, hard-working managers who rely heavily on vendors to come up with merchandising programs and help train in-store people.

Interviews with 18 of Builders Square's approximately 400 vendors also found the company's corporate managers looking to install systems and controls over what, up to now, has been a juggernaut concerned only with gaining national market share at all costs.

Cut-throat pricing, while still a fact of life, is slowly but surely succumbing to merchandising programs with the goal on profitability.

Builders Square is also attempting to automate completely its inventory reordering and management (through the Eagle system), as computerized perpetual inventory is expected to be fully operational chainwide by Jan. 1, according to several vendors (*see related story*).

"K mart has been fully supportive of Builders Square's expansion," said Ken Johnson, national accounts manager for Owens-Corning Fiberglas, of the chain's parent. "But as the stores reach maturity, they need to become profit entities, and it appears Builders Square is taking a somewhat more conservative approach to its operations overall."

Vendors report, though, that except for the financial support it gets from K mart for expansion, Builders Square still maintains virtual autonomy from the Troy, Mich.-based discounter.

Praise top brass, buyers

While most vendors said their main contact at Builders Square was the buyer, they also insist that higher level managers—from merchandising vps Lynn Cornelius and Bob Shaw to executive vps Frank Powers and Jud Walford to president and chairman Frank Denny—eagerly participate in many merchandising decisions.

"All you have to do is look at the higher-ups—all with merchandising backgrounds—to see why this is," said Rick Coit, vp-sales for Ames Lawn and Garden Tool. Dave Roberts, merchandise manager for EZ Paintr, added that Builders Square's management was "already expert in retail and knew the concept. They wanted vendors to help make it work."

"Professional," "loyal" and "flexible" were descriptions used by many vendors to characterize Builders Square's management and merchandisers. Most vendors saw the chain as accommodating, open to suggestions, whose people make well thought out decisions on products and buy with a minimum of red tape. Roberts of EZ Paintr described the chain's style of negotiating as "decisive, with a high level of urgency."

"They are very clever merchandisers, fair, loyal, and rarely switch suppliers, which is why vendors bend over backwards for them," said Joe Bancroft, chairman of Croft Metals, the chain's long-time metal door supplier.

This is not to say, though, that the chain doesn't appreciate its own clout with suppliers. "Builders Square can be difficult; they are big and they know it," said Bill Carraway, national accounts manager with TECO, which sells over $1 million in builders hardware to the chain annually. "But with an account this size, and the exposure it can give your product, you adapt."

Vendors are unanimously impressed—almost to the point of being in awe—with the way Builders Square has opened 88 stores in the last two years, and the majority claim to have had no problem reaching a buyer or vice president when they needed one.

Vendors are impressed by Builders Square's professionalism, and like the exposure their products get.

Photo courtesy of Discount Store News

But, for some, this growth, and the travel demands it has placed on the chain's key personnel, have been obstacles to communication with vendors.

"I think Builders Square is terrific, but its buyers and executives simply don't have the time to look at new things," said the regional sales manager for one of the chain's electricals suppliers. Sam Gaddis, director of national sales for Georgia-Pacific, agrees.

"They've grown so fast that they haven't been all that accessible," Gaddis said. "And on products like ours, whose price change every day, communication is essential. So, you just keep calling."

Boosting margins a bit

In competing for Builders Square's business, vendors still have to be "sharp on price," according to the above-mentioned electricals supplier. Bob Koch, director of consumer marketing The Glidden Co. (Builders Square's main paint supplier), confirmed this, saying the chain still practices "extremely aggressive pricing."

But it appears Builders Square is becoming more concerned with what Frank Xavier, senior vp-sales/marketing for PermaBilt, the vanities and cabinet supplier, called "the full service program."

Gaddis of G-P noted that the chain's main negotiating thrust "is now making sure they have enough merchandise in the stores instead of just price." And VerNeil Mesecher, national accounts marketing manager for Weyerhaeuser, thinks there has been a change in mindset about promotion and profitability at the chain in general.

"We're coming from an era where everything was price-sensitive to where Builders Square has recognized that people are willing to spend more for quality merchandise," he explained. "It's not necessarily price anymore for them, but price, quality and service."

Consequently, a number of vendors have seen the chain, since last spring, slowly raising prices on selected items.

"Builders Square is not hitting on price the way it once did," noted Jim Albritton, regional sales manager for Makita, which sells more than $80,000 worth of tools and accessories per store to the chain.

He reported that, in the past six months, Builders Square has raised prices on many Makita power tools by as much as 5 percent. "Now they're able to make a profit selling our products."

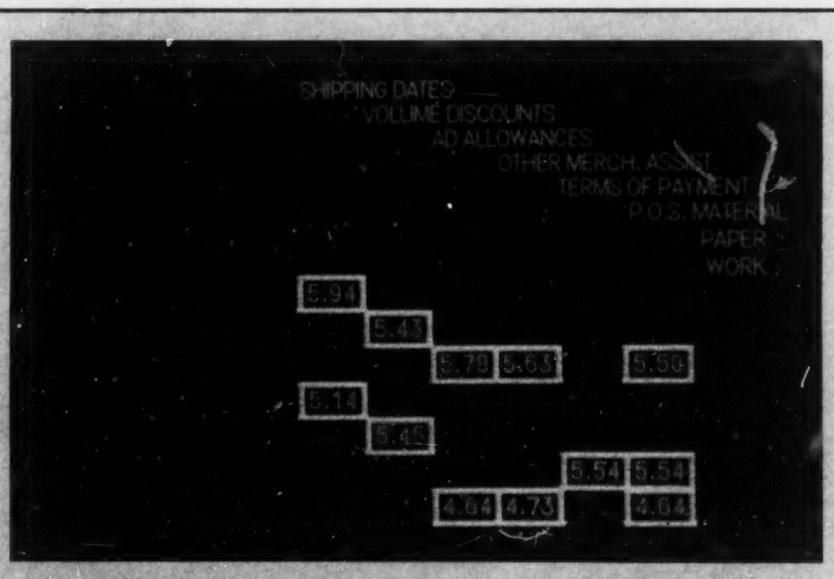
Most vendors believe, though, that Builders Square has not completely abandoned its low-price image (many alluded to the amount of media advertising the chain does in all its markets as proof of its promotional strategy), but is just being more selective in its implementation.

"They'll get zero profit on specials like our 25-foot tape rule, but overall I'd say they're making money now on what we're selling them," said Paul Forehand, a sales rep for Stanley Tool, which supplies Builders Square with 690 skus of carpenters tools.

With the advent of perpetual inventory control next year, and with the prospect that its expansion is slowing down to a 20 to 25 new-store-per-year pace, it isn't all that remarkable to hear from vendors that Builders Square is looking at its business a different way than it did two years ago.

The question is whether Builders Square can achieve the profitability it seeks within the highly competitive retail home improvement environment its growth has helped to create and stimulate.

"They've spent so much time opening stores that now they have to see if they can control what they've got," said G-P's Gaddis.



Earlier this year, vendors were polled on their relationship with a number of home improvement chains, including Builders Square. They were asked to rate the pressure exerted by each chain on a scale of 1 to 9, with 9 being the most pressure.

On the whole, Builders Square was seen as being pretty easy to work with, compared to other home center operators. Like Home Depot, its main warehouse competitor, Builders Square demands the most from its vendors when it comes to shipping dates. Surprisingly, it was seen by vendors as far more lenient on volume discounts than all other chains evaluated but Hechinger.

The survey, conducted for *NHCN* by Leo J. Shapiro & Associates, also found that vendors, for the most part, felt that the more pressure a retailer exerted on a supplier, the more positive the vendor/dealer relationship. Paradoxically, while Builders Square was viewed as being a fairly non-pressure operator, the chain ranked third—behind Home Depot and Wickes and tied with Hechinger—as having helped to influence vendors' businesses.

Suppliers play major role in training store personnel

By an NHCN staff editor

NATIONAL REPORT — Most vendors applaud Builders Square's buying expertise, and report that its attempts to systemize its ordering and reordering is starting to work smoothly.

They also claim that while their own involvement in in-store maintenance and merchandising is marginal after a program is in place, they are extensively involved in training store personnel at all 118 of Builders Square's warehouse facilities.

Centralized buying

While most of the chain's hardlines buyers operate out of its San Antonio, Texas, headquarters, Builders Square has split up its commodities buying responsibilities regionally into six areas of the country: Los Angeles, Chicago, Detroit, San Antonio, Atlanta and one other northeastern city. Lumber and other building materials are purchased on a typical "bid and ask" basis weekly.

Where the company, when it first started out, would buy through commodities distributors, it is now large enough to buy mill direct from virtually any supplier. So it is not uncommon for each store to take a truckload of roofing ($4,000 worth) and insulation ($7,500 worth) from Owens-Corning, according to national accounts manager Ken Johnson.

But ordering of all products, regardless of vendor, still requires approval from San Antonio. "If I'm dealing just with a store manager or a regional guy and place an order, I will not get paid," said Rick Coit, vp-sales for Ames Lawn and Garden Tool.

"We're glad San Antonio approves all orders," noted Gayle Clark, national accounts manager for Regent Lighting, a Burlington, N.C., outdoor security lighting supplier. "Store managers can get a little order happy if left on their own."

Computerized reordering

Indeed, Builders Square, for all intents and purposes, has factored out store personnel from the ordering equation, although it appears that the company, within the past few months, has liberalized its reordering policies to allow

(Continued on page 42)

Seats resigns post as Diamond files reorganization

(Continued from page 1)
wrote: "There are so many opportunities out there [for Diamond] once the plan has been accepted."

The reorganization plan, filed in U.S. bankruptcy court on Nov. 25, divides Diamond's creditors into four classes. Under the plan, small creditors would be paid in full immediately.

Other claims would be paid over an extended period with debt and equity security. According to court papers, Diamond has total liability of $145,628,000. In the first week of December more than $46 million has been identified as secured claims and in excess of $23 million in unsecured claims. The plan also provides for continued ownership of a comparatively small portion of MGC by existing common shareholders.

Linda Sartin, counsel for the creditor's committee, said the plan was being distributed to creditors.

"It's really premature to say what the committee's thinking is," she said.

In addition to the reorganization plan, Diamond must submit a disclosure statement for creditors and stockholders to the court for approval. Grubstein said the company expected to do that in early December. He said the approval process normally takes about a month.

Diamond has 5,000 shareholders and 18 million shares outstanding. Michigan General chairman Shapiro holds 22 percent of the company, the largest single interest.

Seats, 53, spent two years with Diamond, after a long career with Payless Cashways. His resignation was effective immediately.

"Harlon's desire has been to get the company to a point where it could emerge from Chapter 11," said Grubstein. "He has done that exceptionally."

Seats' place on Michigan General's board will be left vacant indefinitely, Grubstein said.

Seats called his parting from Diamond "a real amiable thing." However, one source familiar with Diamond told *NHCN* that Seats was frustrated by the diminution of his authority following the appointment of Schaffer, formerly an official at the Moore's division of Grossman's, as senior vp in September.

Seats said he is receiving "minimal" retirement compensation.

Asked if he would have done anything differently in his effort to avert Diamond's bankruptcy, Seats said he probably would have closed some smaller stores sooner.

In his letter to Shapiro, he said he believes Diamond will survive because its stores that have been closed will no longer hurt the bottom line and their assets can be redeployed. He also thought Diamond's reorganized distribution centers will help solve stock problems, and that company's management is strong.

After taking time off to travel, Seats said he plans to do consulting work in the industry. He said he will also spend time at his newly built home in Kansas City, Mo.

And he joked: "My present plan's to try to remove about 50 pounds of fat from my body," that he put on after quitting smoking.

Mich. General reports 3Q net loss

CARROLLTON, Texas — Michigan General Corp. reported a net loss of $13.8 million for the third quarter of 1987, on sales of $70,981,000.

For the same period last year, the company showed a net loss of $12.7 million, on sales of $109,299,000.

Michigan General is the parent company of Diamond Lumber, which filed Chapter 11 in April.

In its report for the 1987 third quarter, Michigan General said about 44.5 percent of the decline in net sales of $38,318,000 was attributable to the of closing 27 stores. Diamond now has 63 stores compared to 90 a year ago.

For stores that are still open, sales were $59,215,000 for the quarter, compared to $79,696,000 a year ago. But the company said sales were up from the second quarter of this year.

New survey casts doubt on direct mail effectiveness

(Continued from page 1)
Half of Scotty's print advertising budget is devoted to a monthly catalog, and 80 percent of those catalogs are mailed through Advo Systems, one of the country's largest direct mail operations. Fant says Scotty's tested direct mail versus newspaper insertion when it began distributing the catalog, and mail was more effective.

The NAB study is new ammunition in the longstanding battle between newspapers and direct mail firms to win the hearts and minds of advertisers like home center dealers and suppliers.

According to the NAB, 56 billion pieces of direct advertising mail were sent in 1986, at a cost of $17 billion. That's up from 37.5 billion pieces in 1982, the last time NAB did such a survey.

The latest survey was conducted in three phases during January. Initially, 867 people were interviewed, with 658 responding to the second interview and 599 completing the third.

Among retailers, Sears fared the best, with respondents saying they kept almost half the direct mail they received from the mass merchant.

Kroger, the supermarket chain, fared the worst, with five times as much mail being thrown out as kept. Specific home centers were not broken out of the category.

The NAB also found that consumers earning more than $35,000 a year received more direct mail, but threw away a greater percentage of it.

Overall, 75 percent of all mail received in one day was dumped, up from 57 percent in 1982. And mail from national advertisers is more likely to be thrown out than local advertisements.

But Jan Scarmuzzi, director of research and marketing development for Advo says that because direct mail is thrown away doesn't mean it's ineffective.

"The issue isn't who's throwing what away," she says. "If a person reads something, throws it away and goes out to buy, that's great. It doesn't matter that they've thrown it away."

And Scarmuzzi points out that of those people surveyed who are the first to look at household mail, 38 percent read through all of it.

"I'd call that pretty great," she says.

And home center dealers say they're satisfied with direct mail as an advertising instrument.

Fant adds: "Newspapers are very quick to crank out reams of information when they feel their revenue is being threatened. Basically we just consider [surveys] self-serving and we do our own monitoring."

For Star Lumber, in Wichita, Kan., direct mail has proven a better way to reach the right customers, says Dave Gregory, advertising manager for Star.

"Newspaper inserts get us in a lot of [areas] that are totally useless," he says. "With mail we can target it."

Star currently has a total market coverage program through the *Wichita Eagle and Beacon*, consisting of inserts and inclusion in a direct mail package, known as marriage mail.

Gregory says the company is considering dropping the paper and becoming part of a direct mail package developed by Simpson Press of Arkansas.

If Star changes, its direct mailings would increase to 50 percent of its total advertising, from 15 percent. Gregory says the Simpson program would be cheaper.

On the other hand, escalating cost was the key factor in Orchard Supply Hardware's decision to leave direct mail five months ago and return to inserts, says Marilyn Lee, marketing director for the San Jose, Calif.-based subsidiary of Wickes Cos. But Lee says Advo's market penetration was good.

The NAB survey is available from the NAB Research Department—212-704-4565, or 212-704-4567—on a sliding fee basis.

Amount of Ad Mail Sent by Selected Merchants to Survey Respondents

	Sent	Kept	Thrown Away
Total	1,874	501	1,373
Home Centers	**60**	**16**	**44**
Sears	25	12	13
K mart	29	7	22
J.C. Penney	14	10	4
Montgomery Ward	12	3	9
Safeway	5	2	3
Kroger	6	1	5

Source: Newspaper Advertising Bureau — *NHCN* chart

Plywood Minnesota eyes specialty niche

(Continued from page 1)
whose market share and margins have been eroded by competition. Staff has also been pared. Management is in the process of looking for outside sales people.

It also seems ready to discard its inappropriate moniker. Since 1982, when the chain was cut loose from the original Plywood Minnesota in Minneapolis, the Chicago operation has had a rough time in the Chicago and suburban market, partly because it lacked identity with local consumers—it no longer carried plywood and had nothing to do with Minnesota.

The name confusion didn't cost the chain customers. But it didn't help to expand Plywood Minnesota's customer base, either, said president Craig Davis.

The biggest problem facing the chain has been competition that has eaten into its market share.

Home centers making a strong presentation in kitchens and baths, as well as specialty retailers in wall coverings and carpetings, have cut into its sales. Figures supplied by the company to Dun & Bradstreet show flat revenues hovering for at least two years at around $20 million annually. Davis declined to speak about sales data.

Last year Davis, who at the time was vp-merchandising, and then-president Mary Baim planned to remerchandise the chain into a "design center" format.

But Baim, who remains an owner, retired, and Davis reexamined the Chicago market only to find it more segmented, with new competitors chipping away at "traditional" Plywood Minnesota lines such as carpeting, paneling and wall coverings.

The idea of a "design" store was passed over, explained Davis, because of prohibitive inventory and overhead costs.

That left the 35-year-old Davis, a former Lee Wards Creative Crafts merchandiser who assumed the Plywood Minnesota presidency a year ago, to take the chain's remaining merchandise strengths—kitchen and bath—and go to market.

The first of two Plywood Minnesota units, a prototype, reopened in October in a sprawling mall on the city's southwest side. It is just 2,700 square feet, down from 30,000 square feet in its old building. Individual units no longer stock merchandise, Davis said. The main store on the city's north side acts as a distribution center.

Because of the small space, stores will depend on special-order activity. He said consumers are willing to wait 10 weeks to 12 weeks for "the value package . . . the right kitchen cabinet." The new look, though, is not expected to attract contractors who operate with short lead times.

Its customer base remains "overwhelmingly BIY," Davis said, with about one third of all purchases made by customers asking for installation. The chain uses a subcontractor to provide this service, and expects installed sales to account for one in every two purchases next year.

A small portion of sales are still in carpeting to long-time apartment management firms and remodelers, although carpeting is not part of its mix.

The remodeled unit has a high-end look. A Kohler bath vignette greets customers on one side of the unit as they enter. The other side features high-end kitchen cabinets and vignettes with appliances.

It's the *look* Davis thinks will satisfy consumers. "If you have a look that satisfies the customers' needs, just a small percentage demands a Kohler piece. You can get that look from American Standard or Price Pfister. The look is what they look for."

The only thing left is the company's name change, which may be problematical.

The market already has a Chicago Kitchen & Bath Inc., a showroom and remodeling company that has recently incorporated. Owner Marianne Scarzone said she's never heard of Plywood Minnesota and that the name Chicago Kitchen & Bath is on her incorporation certificate.

Moore-Handley plunges into red after DC problems

(Continued from page 3)
warehouse caused an increase in interest expense to 0.3 percent of sales versus no interest expense for the 1986 quarter.

Many of the sales people had been hired in late 1985 and early 1986 after the bankruptcy of a large competitor, Belknap. "We hired a lot of Belknap people," said Riley. "Most of them didn't work out."

Of 90 sales people/territory managers hired in 1985 and 1986, only 42—less than half—have been retained by the company, according to the quarterly report filed with the Securities and Exchange Commission.

While a number of these sales people were replaced in early 1986, the replacements require a good deal of sales management time and expense.

Average sales per salesman hired in 1986 ran to $470,000 for the nine-month period ended Sept. 30, according to the report. This was a 24 percent increase over the productivity of such managers in 1986. A similar increase in productivity was experienced for sales people hired in 1985.

Looking ahead

Other factors are intended to help the company pull itself up above sea level over the coming six months. It plans to hire fewer sales people in 1988 than in previous years, relying more on growth in average sales per salesman to achieve overall sales increase.

The numbers provided by Moore-Handley reveal the attractiveness of such a plan now. The longer the salesmen are with the firm, the greater the average sales per manager.

Sales people who have been with the firm from six to 25 years achieved $1.1 million worth of sales on the average for the first nine months of 1987, up 4.8 percent from the same period the previous year.

Sales people with five years experience achieved $843,000 on the average, up by 4.1 percent.

The company has also followed through with a plan to increase its direct shipping business. While that softens its gross margins, it also depresses warehouse and distribution expenses.

In any case, the company now has completed its $5 million warehouse addition, bringing its total DC space to 430,000 square feet.

Warehouse addition

"It's designed to enable us to do $200 million in annual revenues," said Riley.

That should last the company for the foreseeable future. On the other hand, Riley pointed out that the company has doubled its volume in the past four years. So another warehouse space may be in the cards eventually.

In the meantime, Riley won't predict what performance Moore-Handley will have the next quarter or year. But it's a cinch when the company next expands its warehouse, it will burn some midnight oil to develop more careful contingency distribution plans.

New Jersey dealer fights back after arson

(Continued from page 1)
Two months later, the second fire destroyed two buildings, one of them the showroom. The other building contained much of the company's inventory in hardware, paneling, molding and millwork. The fire also consumed lumber stored on the yard.

Total damage from both fires was estimated at $1 million.

But Fanale said the devastation, coming on the 100th anniversary of the company's operation, will do anything but put the dealer out of business.

"A lot of people would pack up and go when something like this happens," Fanale said, "but we're not going anywhere."

He said the company has been operating from a 40-foot trailer ever since the mishap, but the customer reception to the cramped quarters and his employees resolve to restore full services had been gratifying. At the same time, Fanale said vendors have been understanding, and have assisted the company as well.

The combination of loyal customers, committed employees and supportive vendors is encapsulated in Dillistin's new promotional campaign which started recently in *The Bergen Record*. In the photograph that appears with the ad, employees, customers and vendors stand side by side under the company's yard sign.

Work is proceeding on a replacement building that will nearly double the old showroom with 7,100 square feet of selling space and 3,000 of storage. The building is expected to be completed by the beginning of the new year.

"We think it's going to be a state-of-the-art facility in terms of fire prevention," Fanale said, in explaining that a sprinkling system and fire retardant materials will be used to store lumber and paneling.

Fanale said his father and brother bought the century-old company about three years ago. He said the company started off as a store for carpenters, but expanded to include more contemporary product lines. He said the company is also a Trus Joist Products dealer.

Meanwhile, Dillistin continues to offer its $5,000 reward for information leading to the arrest and conviction of the persons or person who set the fires.

Since the middle of the summer, one or more persons have been scorching businesses in Paterson during the weekends. Police investigators have yet to make an arrest.

"Nobody really knows who has been doing this," Fanale said. "Our insurance company even sent a private investigator down here, but he didn't come up with anything.

"We made a lot of friends here, but we also must have made somebody very angry."

The signs outside Dillistin Lumber say it all. The company located in Paterson, N.J., is determined to stay in business after two deliberately set fires. From right to left standing are Sal Fanale, ceo; David Fanale, secretary; and S.J. Fanale, president. Photo courtesy Dillistin Lumber

Mr. Build International plans contractor-oriented showrooms

(Continued from page 1)
It sells master licenses to entrepreneurs who then go to contractors offering franchise agreements that entail business advice, advertising and promotional support plus a network of referrals to a variety of builder tradesmen.

Ernst Home & Nursery Centers, the Seattle-based home center chain, has devoted around 1,500 square feet in 40 of its stores to products that can be installed by Mr. Build-affiliated contractors.

The Mr. Build Plus franchises will be separate from the regular franchise program and will be owned only by general contractors. The showrooms will feature kitchens, baths, window treatments, furniture and accessories.

The franchise fee structure has yet to be worked out for Mr. Build Plus. Mr. Build franchisees, according to public relations director Sherman Tarr, pay the master licensors anywhere from $3,000 to $10,000 up front, plus royalties, depending on the agreement that has been struck.

The Northborough Mr. Build Plus prototype will be the first of between six and 10 Mr. Build Plus franchises projected for the next year. While a few of the locations will likely be located near Hartford, there will be locations throughout the U.S.

The Mr. Build franchises and the prototype Mr. Build Plus were designed by Miller/Zell Inc. Design Center, an Atlanta design firm.

Tarr described Mr. Build Plus as a place where homeowners can go for help on a remodeling project. Instead of having a contractor visit a site, he explained, homeowners visit the showroom for ideas and make arrangements with contractors and decorators at the same time.

Tom Tyska, president of both Mr. Build Plus and Mr. Build International, explained that the prototype Mr. Build Plus was borne out of Flanders' success with the Northborough franchise he has held for three years. He said that although the location is "off the beaten path," Flanders had a gross volume of $2 million last year. Flanders coupled his franchise with a showroom which resulted in the prototype.

Tyska hopes that he will be able to duplicate Flanders' success with the Mr. Build Plus program.

Mr. Build Plus franchises will be sold in two ways: either as a turnkey operation where the Mr. Build Plus corporation will retain ownership of the real estate, storeroom, displays and fixtures and lease it back to the franchisee; or as a whole entity where the franchisee would own the entire operation.

Miller/Zell's role in this endeavor, according to Tarr, would be to provide, among other things, store layouts, graphics, in-store displays and signage. Tarr added that the Mr. Build Plus program was "flexible enough" to help a contractor open a new showroom in, for instance, a shopping mall.

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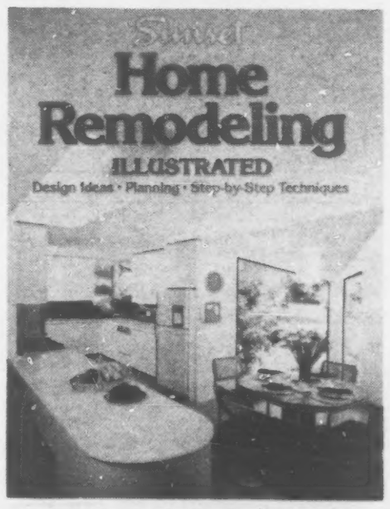

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Hechinger pays $66M to buy Home Quarters

By Elizabeth Brent
NHCN staff editor

LANDOVER, Md. — Hechinger signed a definitive agreement to acquire Home Quarters Warehouse (HQ), the Virginia Beach, Va.-based chain of six stores on Dec. 17 for $66 million.

The 67-unit Hechinger, based here, expects to complete the deal by February 1988. It will run the company as a separate, independent subsidiary, according to Hechinger president John Hechinger Jr.

"We think that Home Quarters is one of the best run warehouse chains in the country and complementary to what we're doing," he said.

HQ's sales were $65.4 million and net income was $1.05 million for the year ended Jan. 25, 1987. For the six months of this fiscal year, HQ earned $770,644 on sales of $42.9 million. Hechinger, whose sales through nine months equaled $553.6 million and net income totaled $29.2 million, estimates HQ sales for all of 1987 will be $100 million. The warehouse chain will continue to operate from Virginia Beach under the Home Quarters name.

Its former chairman Bernard Kossar, who opened the first two HQ's in February 1985, will serve as consultant to both HQ and Hechinger. Frank Doczi will continue as president and chief operating officer. Doczi will report to Steve Bachand, currently Hechinger's executive vp, who will now act as chief executive officer for HQ.

"Home Quarters and I are really inseparable. It's a labor of love and I enjoy it. The last thing in my mind is to do something else [because] I enjoy it too much," said Doczi.

Ironically, had the stock market not taken such a sudden plunge on Oct. 19, this acquisition might not have been necessary. Home Quarters was about to raise $15 million in a public stock offering to fund its expansion when the crash altered market conditions and made the IPO untenable.

HQ was started by W.R. Grace in August 1984. In October 1986, the chain was bought out by its management, in-

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Management group to buy Wickes Lumber in LBO

By an NHCN staff editor

VERNON HILLS, Ill. — A group of senior Wickes Lumber officials led by general manager Les Hagen signed an agreement in principle Dec. 15 to acquire the 241-unit chain from its parent, Wickes Cos.

The management group expected to finalize the leveraged buyout by the end of next month. Terms of the agreement were not disclosed. However, analysts estimated the sale price for Wickes Lumber at between $250 and $350 million. Published reports of a sale price at $200 million were "at the low end," said H. Lloyd Kanev at Smith Barney.

Les Hagen, general manager of Wickes Lumber. NHCN photo

Gerald May, a securities analyst with Paine Webber in New York, said even with a hypothetical sale price of $350 million, the Wickes Lumber management group would have to come up with between $35 million and $50 million in cash.

Hagen said the LBO group had financial backing "in place" but declined to specify from which sources. He was likewise mum on the deal's structure. The deal is contingent on Wickes Lumber getting financing, said Ann Julsen, a Wickes spokeswoman.

In an earlier interview (*NHCN*, Nov. 16), Hagen said Wickes Lumber owns "most of the properties we are on," giving the chain a good base for borrowing against assets.

Led by the 61-year-old

(Continued on page 38)

Florida legislature repeals controversial service tax

By Suzanne Floyd
NHCN staff editor

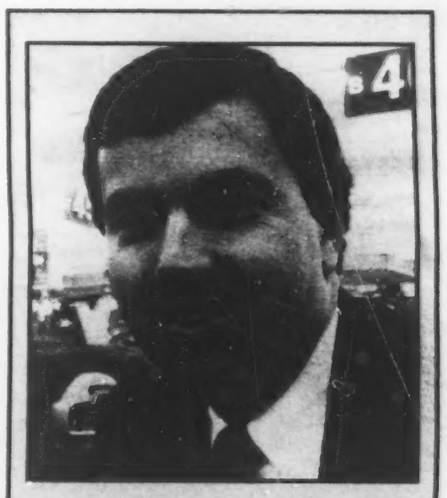
TALLAHASSEE, Fla. — After months of well publicized struggle, the Florida service tax battle is over, with the advertising agencies, lawyers, public relations firms and others in the service sector claiming victory.

The legislature voted to repeal the tax in mid-December, after which Gov. Bob Martinez promptly signed the action into law.

In order to offset the loss of revenue that was anticipated from the ad tax, the state legislature voted to raise the sales tax on goods to 6 percent from 5 percent.

The initial purpose behind the services tax was to bring

(Continued on page 38)



Scott Westlake, president of Westlake Hardware. NHCN photo

Scott Westlake pursues dream of expansion

By Gary S. Ruderman
NHCN staff editor

LENEXA, Kan. — When Scott Westlake was an eight-year-old boy, he used to walk hand-in-hand through Westlake Hardware's stores in Missouri with his father, the company's chairman, F.K. Westlake.

As he matured, the son and his dad "always shared a dream of making this a

Continued on page 38)

Tool rental market catches dealer attention

By an NHCN staff editor

NATIONAL REPORT — Although it is beset by headaches of maintenance, seasonality and the need for tight management, tool rental is being given a shot in the arm by several lumber and hardware dealers who are looking to take their share of what the American Rental Association says is a $7.5 billion market.

The main attraction of tool rental is the prospect of doubling or tripling gross margins over what dealers would get from normal lumber or hardware sales. Most dealers aim to make 95 cents in rental for every dollar that the equipment costs. In addition, dealers can make as much as 50 percent of their revenues from accessories sales.

"The rental business has grown in the last two years," said John Mawdsley, director of national accounts for Skil Corporation, the Chicago tool maker, "partly due to the number of smaller remodelers and contractors who are unwilling to make a large investment in machinery, and also due to the number of people now opening rentals."

Dan Dunham, president of

(Continued on page 38)

Grand Rental Station in Virginia Beach, Va., is part of American Hardware Supply's attempt to tap the $7.5 billion rental market.

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NEWSBREAKS

BUSY BEAVER BUYOUT GOES BUST: A leveraged buyout of Busy Beaver by company managers has been scuttled because financing could not be obtained by those managers participating in the buyout in the wake of the stock market crash. The deal, which was scheduled to close Dec. 3, would have had managers paying $12 million to Dixons Group PLC, Busy Beaver's British parent firm. Busy Beaver president Chuck Bender declined comment on the managers' or Dixons' future plans.

INDUSTRY UPDATE

USG layoffs part of cutback plan

CHICAGO — USG Corp. will lay off several hundred workers as part of its continuing program to cut overhead.

The move will save USG about $24 million annually, according to USG spokesman Paul Colitti.

He would not say specifically how many employees will be affected, but said all are salaried. Cuts will come at USG's corporate headquarters here, as well as at other administrative offices around the country.

This summer, USG also offered a voluntary early retirement program which eliminated more than 100 positions.

Colitti said the company will spend $8 million on a severance program for laid-off employees, which will be charged against fourth-quarter earnings, whose results should be available in January. "We have no reason to expect that we wouldn't have a substantial fourth-quarter profit," he said. USG reported a $44 million profit in the third quarter.

Coast acquires hardware chain

DENVER — CoastAmerica Corporation last month acquired the assets of Bill Watson Hardware, a nine-store chain based in Tampa, Fla.

Sales for the independent in 1986 were in excess of $4 million, reported Daniel L. Shimer, CoastAmerica's vp and treasurer.

Under its new ownership, the hardware chain will be operated as a wholly owned subsidiary under the name Retail Concepts Inc.

"We're excited about the opportunities for geographic expansion in the Southeast and particularly Florida," said Richard H. Bard, CoastAmerica chairman and president, in a prepared statement.

Coast will convert the Watson stores to its Coast to Coast merchandise assortment and ad program. The units will initially be run as company-owned operations.

Scotty's offers new credit card

WINTER HAVEN, Fla. — Scotty's has joined the growing list of retailers offering their own private label consumer credit program.

Scotty's introduced the card last month. Florida's Barnett Bank processes applications and handles receivables.

Dennis Stults, Scotty's president and chief operating officer, said that the chain had been considering a private label card for nearly a decade.

The card will be honored at all Scotty's locations including its hardware stores and factory warehouse outlets.

Stults said that applications for the card have numbered "several thousand so far," which exceeds initial expectations. Stults attributes this to Scotty's substantial promotion of the card, which included newspaper and television advertising as well as direct mail solicitation.

Card holders won't pay an annual fee. The card has a revolving balance, and 18 percent annualized interest.

Paint Factory names dir. of sales

SAN DIEGO — The Paint Factory named Michael Ace to the newly created post of director of paint sales, responsible for buying paint, sundries and finishing products.

Ace, formerly a senior buyer at Irvine, Calif.-based Builders Emporium, most recently was a manufacturer's representative to the home center industry.

In early September, The Paint Factory debuted in El Cajon, Calif., the first of several planned units.

Market sour for industry stocks

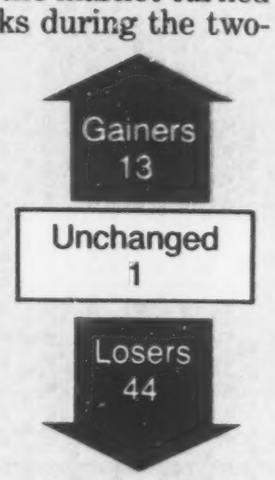
NEW YORK — For the most part, the market turned sour for home center and vendor stocks during the two-week period that ended Dec. 11.

Of the 58 stocks tracked for *NHCN* by Media General, 13 increased in value during the period.

Moore-Handley increased 5.9 percent to $4.50, making it the biggest gainer among wholesalers.

Another wholesaler, Palmer G. Lewis, increased 3.8 percent to $6.75.

Hughes Supply increased 3.4 percent to close at $22.75.



Dampened post-crash climate leaves Fagen's IPO plans cold

By an NHCN staff editor

PITTSBURGH — A plan to take Fagen's Building Centers public has been postponed indefinitely because of the Oct. 19 stock market crash.

Fagen's ceo and president Jack Fagen said his company had planned an initial public offering in February to raise between $20 million and $25 million. The money would have been used for expansion, he said.

But the crash, which caused stock prices to plummet and left the market in turmoil, has seriously dampened the IPO climate.

"We definitely wouldn't consider it now," Fagen said.

Though Fagen said the postponement—and resulting loss of additional capital—slows the company's expansion plans, these plans are not completely dead.

Fagen, in an interview with *NHCN* on Dec. 10, said the company plans to announce "a substantial acquisition" before the end of the year. He declined to provide details until a deal is signed.

After working for Busy Beaver and Cyclops, its parent company, for 13 years, Fagen bought 14 Busy Beaver units in January 1985. There are now 18 units. Fagen said that by the end of the fiscal year in June, sales will have grown 71 percent and profits 200 percent.

And he said that if growth continues, Fagen's may be able to raise more money when it does go to market because it will be more attractive to investors.

Grossman's signs new $50 mil. credit agreement at lower rate

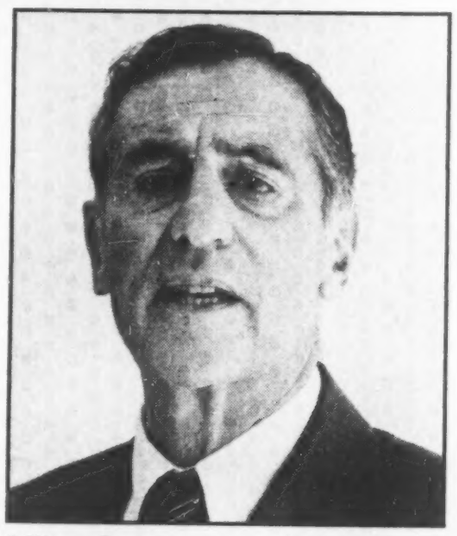
By an NHCN staff editor

BRAINTREE, Mass. — Underscoring Grossman's "improved financial condition," company officials said they have signed a new $50 million revolving credit agreement at a lower interest rate than the retailer's former line of credit.

Sydney L. Katz, executive vp and cfo of the 265-unit home improvement chain based here, said initial annual interest on the five-year agreement is 0.5 percent over the prime rate. That compares with the former line of credit on which the company paid annual interest at 2 percent over prime rate.

The credit agreement was signed Nov. 24 with The First National Bank of Boston, as agent, and The Bank of New England, N.A.; American Security Bank, N.A.; and Manufacturers Hanover Trust Co.

The agreement provides for revolving credit of $48 million and an open line of credit of $2 million. Money borrowed under the agreement will be used for "seasonal working capital requirements," a company statement said.



Mike Grossman, chairman of Grossman's. NHCN photo

U.K.'s Payless DIY buys 26-unit chain

By an NHCN staff editor

SEVENOAKS, England — Payless DIY has purchased for £27 million ($49.6 million) the 26-unit Madeley's chain, based in Leeds in northern England.

The Dec. 14 acquisition brings to 101 the number of stores in Payless' operation. It is this country's third-ranking chain behind B&Q and Texas Homecare.

Madeley's operates full-line home center units in north and west England and in south Wales.

Ted Lansdowne, Payless DIY's managing director, told *NHCN* during a telephone interview the day of the agreement that his company intended to close at least nine Madeley's units—mostly first-generation stores—and keep those open that are between 21,000 and 22,000 square feet.

> The "Madeley's" name will be kept for the time being and gradually integrated into the Payless DIY store network.

"[The acquisition] strengthens our market in those areas," said Lansdowne.

Payless intends to retain Madeley's store managers, but not its upper management.

The "Madeley's" name will be kept for the time being and, said Lansdowne, gradually integrated into the Payless DIY store network.

Change in market share

Madeley's was the last of the major independent chains left in England, where consolidation among the big three home improvement operators—all with well-financed parent firms—has changed the market share landscape. Madeley's is Payless DIY's first acquisition.

Industry to ship 46M major appliances

By an NHCN staff editor

CHICAGO — The major home appliance industry shipped over 4 million units in October and a record 40.4 million units in the first 10 months of the year, according to the Association of Home Appliance Manufacturers (AHAM).

By the end of the year, shipments are expected to surpass the previous record of 45.1 million units, set last year, and hit 46.3 million units. This will make 1987 the fourth consecutive record year for major appliances in recent history.

Year-to-date shipments are up 6.3 percent. For the first time in history, January-through-October shipments exceeded 40 million units, an average of four million units per month for 10 consecutive months.

While shipments failed to exceed the levels of the previous corresponding month in October, three products registered noteworthy shipment increases:

- 1.3 million microwave ovens, up 4.3 percent, represented the largest monthly shipment of any major appliance in history;
- 436,500 disposers, up 8 percent, made October the second-best month ever for the product;
- 83,600 room air conditioners, up 38.9 percent, reached the highest October level since 1979 for this home comfort appliance.

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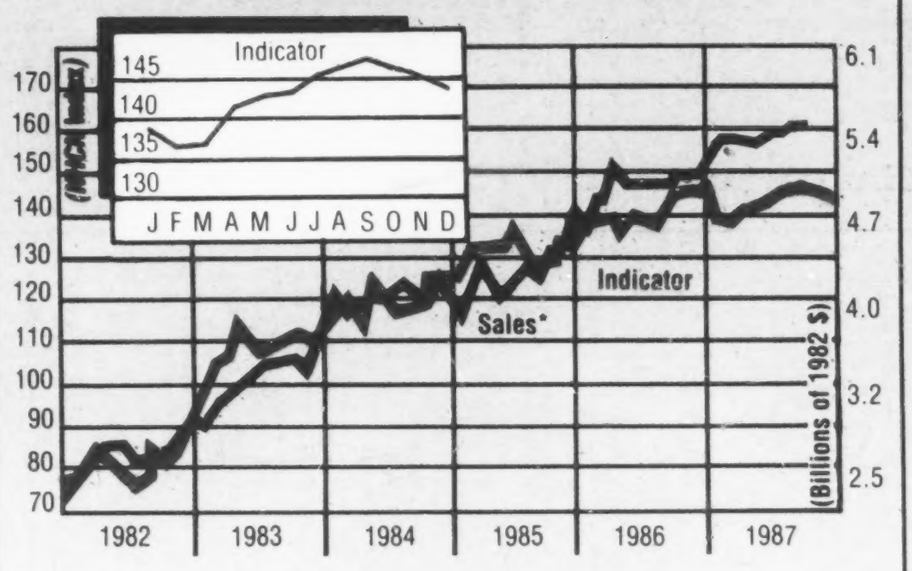
BUSINESS WATCH



*—Monthly retail trade building materials, hardware and supplies in (1982 $).

Indicator—represents an estimate of future building material retail sales (adjusted for inflation) relative to Jan. 1980, based on current levels of housing starts and resales, personal income, interest rates and related data.

The NHCN Leading Indicator is projecting a softening in building materials sales during the fourth quarter of 1987. Housing starts are declining, pointing to a slowdown in sales in the months ahead.

Pacific states' bldg. materials sales rise 12 percent in 1987

By Richard E. Mount
Special to NHCN

Building materials sales in the Pacific states rose 12 percent in 1987, stronger than the 8 percent national average. Adjusted for inflation, unit sales in the region were up 9 percent. For 1988 an additional gain of 4 percent in dollar volume is expected for the region, reaching another record high.

Existing home sales in the Pacific states, the best indicator of future building materials retail sales, headed for a 2 percent rise in 1987.

The sales gain would have been stronger except for the strength in the fourth quarter of 1986 when many owners of second and investment homes

Richard E. Mount

sold them to take advantage of more favorable capital gains rates. The surge in fourth-quarter sales led to a drop in the first quarter of 1987. Sales rebounded in the second quarter of 1987 and remained high into the third.

Regional resales will be down only 4 percent in 1988. Mortgage rates are likely to move up in the first half of 1988 as the Federal Reserve takes a less stimulative monetary stance, after the rapid growth in money supply following the October fall of the stock market.

Resales should drift lower in this rising mortgage rate environment, about 5 percent nationally, but will still be high, maintaining the de-

(Continued on page 13)

Richard E. Mount is senior economist and manager of housing and construction material research for Merrill Lynch Economics.

Home Center Industry Regional Outlook

		1987				1988						
		QI	QII	QIII	QIV	QI	QII	QIII	QIV	1986	1987	1988
***NHCN* Leading Sales Indicator** (February 1980 = 100)		141.1	143.8	146.4	143.7	142.7	142.3	143.5	144.7	130.4	143.8	143.3
Building Material Retail Sales												
Current	**$ Millions SAAR Total United States**	69,660	68,976	71,616	71,666	72,048	72,800	74,163	75,336	65,529	70,480	73,648
	New England	3,672	3,913	3,774	3,755	3,768	3,800	3,864	3,928	3,301	3,779	3,841
	Middle Atlantic	8,600	9,279	9,145	9,116	9,150	9,231	9,389	9,548	7,899	9,035	9,331
	East North Central	11,515	12,784	12,740	12,764	12,846	12,995	13,253	13,513	11,126	12,451	13,154
	West North Central	4,626	5,195	4,963	4,952	4,979	5,030	5,125	5,220	4,393	4,934	5,089
	South Atlantic	13,964	12,947	14,409	14,434	14,503	14,647	14,914	15,183	12,980	13,938	14,814
	East South Central	4,120	3,959	4,147	4,171	4,215	4,273	4,383	4,479	3,683	4,099	4,338
	West South Central	8,109	7,470	7,742	7,747	7,788	7,884	8,047	8,233	7,523	7,767	7,989
	Mountain	3,797	3,474	3,831	3,848	3,869	3,909	3,990	4,064	3,457	3,738	3,959
	Pacific	11,257	9,956	10,864	10,879	10,930	11,029	11,199	11,368	9,550	10,739	11,133
Constant	**Millions $1982 SAAR Total United States**	64,420	63,551	65,503	64,900	64,600	64,500	64,800	65,000	60,490	64,594	64,725
	New England	3,396	3,605	3,452	3,401	3,379	3,367	3,376	3,380	3,125	3,463	3,375
	Middle Atlantic	7,953	8,549	8,365	8,255	8,204	8,179	8,204	8,216	7,476	8,281	8,201
	East North Central	10,649	11,779	11,653	11,559	11,518	11,513	11,580	11,629	10,534	11,410	11,560
	West North Central	4,278	4,786	4,539	4,485	4,464	4,457	4,478	4,492	4,158	4,522	4,472
	South Atlantic	12,914	11,929	13,179	13,071	13,004	12,977	13,031	13,065	12,286	12,773	13,019
	East South Central	3,810	3,648	3,793	3,777	3,779	3,786	3,830	3,855	3,487	3,757	3,812
	West South Central	7,499	6,882	7,081	7,016	6,983	6,985	7,031	7,085	7,120	7,120	7,021
	Mountain	3,511	3,201	3,504	3,485	3,469	3,464	3,486	3,497	3,271	3,425	3,479
	Pacific	10,410	9,173	9,937	9,852	9,800	9,772	9,785	9,783	9,034	9,843	9,785
Per Cent of U.S. Total												
Current	**Per Cent of U.S. Total ($Current) Total United States**	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
	New England	5.27	5.67	5.27	5.24	5.23	5.22	5.21	5.20	5.17	5.36	5.21
	Middle Atlantic	12.35	13.45	12.77	12.72	12.70	12.68	12.66	12.64	12.36	12.82	12.67
	East North Central	16.53	18.53	17.79	17.81	17.83	17.85	17.87	17.89	17.41	17.66	17.86
	West North Central	6.64	7.53	6.93	6.91	6.91	6.91	6.91	6.91	6.87	7.00	6.91
	South Atlantic	20.05	18.77	20.12	20.14	20.13	20.12	20.11	20.10	20.31	19.77	20.11
	East South Central	5.91	5.74	5.79	5.82	5.85	5.87	5.91	5.93	5.76	5.82	5.89
	West South Central	11.64	10.83	10.81	10.81	10.81	10.83	10.85	10.90	11.77	11.02	10.85
	Mountain	5.45	5.04	5.35	5.37	5.37	5.37	5.38	5.38	5.41	5.30	5.38
	Pacific	16.16	14.43	15.17	15.18	15.17	15.15	15.10	15.05	14.94	15.24	15.12
Industrial Production												
Index (1977 = 100)	Brick	98.1	97.7	99.9	96.3	95.4	94.3	93.1	91.6	93.2	98.1	93.6
	Cement	117.9	101.6	102.3	102.1	101.5	101.1	100.4	99.6	103.1	103.4	100.7
	Gypsum Wallboard	134.6	134.2	133.1	132.1	131.2	130.4	129.5	127.6	133.3	133.5	129.7
	Hardware	102.9	103.7	101.8	102.9	101.9	100.5	99.4	99.7	101.9	102.8	100.1
	Lumber Products	139.8	141.3	143.8	135.6	131.5	129.4	127.3	121.1	131.8	139.7	128.4
	Paint	100.0	97.0	99.8	100.2	99.6	99.1	98.7	100.1	100.1	99.3	98.9
	Plywood	175.6	177.4	179.2	172.0	168.6	166.2	164.6	153.2	158.8	175.4	165.7

Data: Department of Commerce
Bureau of Labor Statistics
National Association of Realtors
Department of Housing and Urban Development
December 28, 1987

The Home Center Industry Outlook runs in two parts, in alternate issues. The first part includes latest data on the General Economic Outlook; Residential Alterations & Repairs; and Retail Trade Activity. The second part includes latest data on regional building material & supply store sales; and industrial production. The *NHCN* Leading Indicator runs every issue.

SAAR—Seasonally Adjusted Annual Rate
p—projection
NHCN chart
Source: Merrill Lynch Economics for *NHCN*